

Press Release

Vasundhara Cotton Mills Private Limited

June 14, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 24.11 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (**read as SMERA BBB minus**) on the Rs. 24.11 crore bank facilities of Vasundhara Cotton Mills Private Limited. The outlook is '**Stable**'.

Vasundhara Cotton Mills Private Limited (VCMPL), an Andhra Pradesh-based company was incorporated in 2005 and commenced commercial operations in 2007. The company is engaged in the manufacturing and trading of cotton yarn and allied products at Guntur and has capacity of 18000 spindles per annum. The company manufactures yarn in the count range of 30-60s.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The promoters, Mr. Ravi Sankar Guntupalli, Mr. Guntupalli Subhash, Mr. Daminani Ravi Sankar and Mr. Koteswara Rao Guntupalli have more than a decades experience in the textile industry. This has helped them establish comfortable relationships with their suppliers and customers.

- **Robust financial risk profile**

The robust financial risk profile is marked by low gearing, healthy debt protection measures and comfortable networth. The debt equity stood at 0.85 times in FY2016 as compared to 0.91 in FY2015. Total debt of Rs 13.75 crore consists of Rs 0.05 crore is of unsecured loan and Rs 0.85 crore and the balance is short term debt (cash credit facility) in FY2016. VCMPL reported healthy interest coverage at 2.91 times in FY2016 as compared to 3.52 in FY2015. Moreover, NCA/TD stood at 0.13 in FY2016. The networth has been comfortable at Rs.18.67 crore in FY2016 as against Rs.17.33 crore in FY2015. For FY2017 (Provisional), the gearing stood at 0.97 times and networth at Rs 22.04 crore. SMERA has treated Rs 2.05 crore of unsecured loan as quasi equity based on confirmation from the client that the same belongs to the promoters and relatives and would be maintained in the business over the medium term.

- **Efficient working capital management**

The efficient working capital management is marked by low working capital cycle days of 89 in FY2016 compared to 91 in FY2015. The inventory days stood at 105 in FY2016 compared to 96 in FY2015. The inventory is high because of the processing cycle of a month. The raw material inventory is also maintained for a month. The company also has a well managed receivable cycle. The debtors and creditor days stood at 18 and 35 respectively.

Weaknesses

- **Susceptibility to fluctuations in raw material prices**

The margins are highly susceptible to changes in cotton prices. The availability of cotton, an agricultural crop depends on the vagaries of nature. Thus, the purchase price depends on the prevailing demand-supply situation which affects the bargaining power with suppliers. Further, the

price of cotton is also regulated by the government through minimum support price which further affects profitability.

• Intense competition

The cotton industry continues to be fragmented with about 200 composite mills and close to 4 million handlooms posing a threat to the company leading to intense competition from organised as well as unorganised players.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

SMERA believes that VCMPL will maintain a stable outlook over the medium term owing to the extensive experience of its promoters. The outlook may be revised to 'Positive' in case the company achieves envisaged sales and profitability margins. Conversely, the outlook may be revised to 'Negative' in case of failure in achieving envisaged sales and profitability margins or if the company registers deterioration in its capital structure.

About the Rated Entity - Key Financials

For FY2015-16, the company reported Profit After Tax (PAT) of Rs.3.63 crore on total operating income of Rs. 51.05 crore as compared to PAT of Rs.5.92 crore on total operating income of Rs.54.33 crore in FY2014-15.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	31-Oct-2030	8.75	SMERA BBB- / Stable
Stand By Line of Credit	Not Applicable	Not Applicable	Not Applicable	1.95	SMERA BBB- / Stable
Proposed	Not Applicable	Not	Not Applicable	0.41	SMERA BBB- /

	Applicable		Stable
--	------------	--	--------

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in
Shreya Vaidya Analyst - Rating Operations Tel: 033-66201217 shreya.vaidya@smera.in	

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.

Disclaimer: A SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.